

Resolution No. 09-01-08:
A Resolution to Amend the Village Investment Policy.

Resolution No.: 09-01-08

Introduced: 09-08-08

Adopted: _____

BOARD OF MANAGERS

FOR

CHEVY CHASE VILLAGE, MD

SUBJECT: A RESOLUTION TO AMEND THE VILLAGE INVESTMENT POLICY

WHEREAS, on April 3, 1995, the Chevy Chase Village Board of Managers duly adopted Resolution No. 4-1-95 to amend Section 77-4(b) of the Chevy Chase Village Charter to authorize the Village Treasurer to invest Village funds in investments authorized for municipalities by State law and permitted by an investment policy to be adopted by the Board of Managers; and

WHEREAS, on April 17, 1995, the Board of Managers adopted an investment policy; and

WHEREAS, on February 12, 1996, the Board of Managers amended the Village investment policy; and

WHEREAS, on April 7, 2003, the Board of Managers amended the Village investment policy for a second time; and

WHEREAS, the Village Investment Committee has recommended that the Board of Managers amend the aforesaid Investment Policy so as to raise the maximum direct investment limitation for Village funds held by the Maryland Local Government Investment Pool from One Million Dollars (\$1,000,000.00) to One Million Five Hundred Thousand Dollars (\$1,500,000.00); and

WHEREAS, the Village Investment Committee has further recommended that the Board of Managers amend the aforesaid Investment Policy to incorporate a prohibition against the borrowing of funds for the sole purpose of investment, consistent with the requirements set forth in § 25.03.03.04 of the Code of Maryland Regulations; and

WHEREAS, the Village Investment Committee has further recommended that the Board of Managers amend the aforesaid Investment Policy to make any and all technical corrections necessary to ensure that references made to Federal and State law within the Investment Policy are current; and

WHEREAS, after due consideration, in open meeting assembled, the Board of Managers finds that amending the Village investment policy as recommended by the Village Investment Committee will assist in assuring the good government of the Village, protect and preserve the Village's rights, property and privileges, and protect the general welfare of the Village.

NOW, THEREFORE, be it

RESOLVED: By the Chevy Chase Village Board of Managers on this 8th day of September, 2008, that the investment policy attached hereto and incorporated herein be and the same is hereby adopted as the investment policy of the Village, as required by Section 77-4(b) of the Chevy Chase Village Charter, as amended; and be it further

RESOLVED: That to comply with Article 95, Section 22F(c)(3) of the Maryland Code, the Village Manager is hereby authorized to submit a copy of the amended Investment Policy attached hereto to the State Treasurer for the State Treasurer to determine if the policy is consistent with the established Local Government Investment Guidelines; and be it further

RESOLVED: That this resolution shall become effective on September 8, 2008 and the investment policy adopted and amended on April 7, 2003 is superseded by the attached investment policy upon its effective date.

The foregoing resolution was adopted by the Chevy Chase Village Board of Managers with the following members voting in favor: _____.

I HEREBY CERTIFY that the foregoing resolution was approved and adopted by the Chevy Chase Village Board of Managers on the 8th day of September, 2008.

Susie Eig, Secretary
Board of Managers

CHEVY CHASE VILLAGE

INVESTMENT POLICY AND PROCEDURES

1. INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment process. The initial step toward a prudent investment policy is to organize and formalize investment-related activities. Related activities that comprise good cash management include accurate cash projection, the expeditious collection of revenue, the control of disbursements and cost-effective banking relations. The policies described in this document will become effective upon approval by the Board of Managers and may be amended only by the Board of Managers.

2. SCOPE

This document applies to the investments of Chevy Chase Village, except for pension plan and Section 457 deferred compensation plan funds, which are administered by the Principal Finance Group and the Hartford Insurance Group, respectively. All financial assets of the Village shall be administered in accordance with the provisions of these policies and procedures, unless specifically exempted by the Board of Managers.

3. INVESTMENT OBJECTIVES

The investment objectives of the Village include:

A. SAFETY:

Safety of principal is the foremost objective of the Village followed by liquidity and yield. Each investment transaction shall seek first to ensure that capital losses are avoided, whether the loss occurs from the default of a security or from erosion of market value.

B. LIQUIDITY:

The Village's investment portfolio will remain sufficiently liquid to enable the Village to meet operating requirements that may be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

C. YIELD:

The Village's cash management portfolio shall be designed with the objective of maximizing income while preserving and protecting capital and maintaining sufficient liquidity. Funds held for future capital projects should be invested in securities that reasonably can be expected to produce enough income to offset inflation. However, such funds shall never be unduly exposed to market price risks that would jeopardize the assets available to accomplish their stated objective, or be invested-in a manner inconsistent with applicable federal, state or Village restrictions.

D. DIVERSIFICATION:

The Village's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types or in individual financial institutions.

E. FIDUCIARY RESPONSIBILITY:

All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall avoid any transactions that might impair public confidence in the Village's ability to govern effectively. The Board of Managers recognizes that in a diversified portfolio, occasional measured losses due to market volatility and unanticipated circumstances may occur, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

F. LEGAL AUTHORITY:

Investment of assets shall be in accordance with state and federal laws and regulations, and the Village Charter and Ordinances. Investment of municipal funds carry certain restrictions under: Maryland law. As of the date this policy is ~~initially~~ adopted, state statute sections governing municipal investment are: Article 95, Sections 22, 22F, 22G, 22N and 22-O, and the State ~~Procurement and~~ Finance ~~and Procurement~~ Article, Sections 6-202 and 6-222 of the Annotated Code of Maryland. (Copies are attached hereto as an appendix.)-

4. DELEGATION OF AUTHORITY:

The Board of Managers shall approve the investment policy governing the investment affairs of the Village. All modifications of this policy shall be in writing and approved by the Board of Managers. Amendments and changes shall be filed with the Maryland Treasurer upon approval by the Board of Managers.

Management responsibility for the investment program is hereby delegated to the Village. Treasurer, who shall establish written procedures for the operation of the investment program, consistent with this investment policy. Such procedures may include express written delegation of authority to persons responsible for investment transactions.

5. MANAGEMENT AND INTERNAL CONTROLS:

The Treasurer shall establish a system of internal accounting controls that shall be reviewed in connection with the annual audit of the Village by an independent auditor. The controls shall be designed to prevent loss of funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions. Controls deemed most important include:

- Control of collusion.
- Separation of duties.
- Custodial safekeeping.
- Clear delegation of authority.
- Written confirmation of telephone transactions.
- Minimizing the number of authorized investment officials.
- Documentation of transactions and strategies.
- Ethical standards.

6. MONITORING AND ADJUSTING THE PORTFOLIO:

The Treasurer will monitor the contents of the portfolio, the available markets and the relative values of competing

instruments, and will adjust the portfolio accordingly, consistent with the investment policies.

7. PRUDENCE AND INDEMNIFICATION:

The standard of prudence to be applied by the Treasurer shall be the "Prudent Investor Rule", as defined by the GFOA Committee on Cash Management, which states:

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The Prudent Investor Rule shall be applied in the context of managing the overall portfolio. The Treasurer or the Treasurer's delegee acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that appropriate action is taken to control adverse developments.

8. QUALIFIED INSTITUTIONS:

Funds may only be invested with financial institutions that have been approved by the Board of Managers. Brokers/dealers in government securities shall be primary government security dealers that report daily to the New York Federal Reserve Bank or have submitted applications to become primary dealers in government securities. Financial institutions (banks, savings and loans, security dealers) must be chartered or licensed to operate within the State of Maryland.

The Village shall maintain a listing of financial institutions that are approved for investment purposes.

The Treasurer shall continue to monitor financial institutions' credit characteristics and financial history throughout the period, in which Village funds are deposited or invested.

The Village shall not conduct business with any firm with which public entities have sustained losses on investments or

that have been removed from an approved list by the Board of Managers.

9. INVESTMENTS:

A. Permitted investments.

Village funds may be invested in:

1. The Maryland Local Government Investment Pool as established under Article 95, Section 22G of the Annotated Code of Maryland.
2. Repurchase agreements collateralized by U.S. Treasury securities under which the Village or its agents take possession of subject securities;
3. Securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, including those involved in mortgage pass-through issuance.
4. Deposits in any bank or banks in the State of Maryland or in savings and loan or building and loan associations (referred to in this subsection as an "institution") shall be insured under FDIC. To the extent interest-bearing time deposits (i.e., certificates of deposit and accrued interest) and/or savings accounts exceed the amounts insured by the Federal Deposit Insurance Corporation (e.g., over the \$100,000 insured limit), such deposits in institutions shall be made only if the institution has deposited a like amount of securities in escrow, covering deposits as collateral, or if the institution has given as security for these deposits any of the types of collateral set forth below:
 - (a) obligations of the United States or any of its agencies or instrumentalities;
 - (b) obligations guaranteed by the United States or by any of its assignees;
 - (c) obligations insured by the United States;
 - (d) obligations of the State or any of its units or instrumentalities;

- (e) obligations of a municipal corporation in the State of Maryland;
 - (f) obligations of a county of, the State of Maryland;
 - (g) obligations of any other governmental authority in the State of Maryland.
5. In securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the provisions of the investment Company Act of 1940 if:
- (a) the portfolio of the open-end or closed-end management type investment company or investment trust is limited to direct obligations of the United States government and to repurchase agreements fully collateralized by United States government obligations, its agencies or instrumentalities, and;
 - (b) the open-end or closed-end management type investment company or investment trust takes delivery of that collateral, either directly or through its authorized custodian.
6. Village assets raised from the proceeds of any tax exempt financing are subject to the arbitrage and rebate rules of the Internal Revenue Code of 1986. Investment of these funds shall be by investment agreement with domestic bank or trust companies rated AA or higher by Standard & Poor's Corporation, or Moody's Investors Service, Inc. Such investment agreements must be collateralized in the event the long term debt rating, of the obligor under the investment agreement falls below A. Such collateral must consist of securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.
- B. Limitations
- 1. Limitations as to the maximum direct investment of the Village's portfolio by type of institution will be periodically determined by the Treasurer.
 - 2. All investments are to be denominated in U.S. dollars.

3. No investment shall be for a duration in excess of 2 years, except as outlined in Section 13.

10. SHORT-TERM VERSUS LONG-TERM PORTFOLIO:

Limitations on instruments, diversification and maturity scheduling shall depend upon whether the funds being invested are considered short-term or long-term funds. All funds shall be considered short-term except those reserved for capital projects (i.e., bond sale proceeds) and special assessment prepayments being held for debt retirement, or general contingency reserve funds as defined in Section 12.

11. SHORT-TERM PORTFOLIO DIVERSIFICATION:

The Village will diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions or maturities.

A. Types of Investment Instruments Allowable:

U.S. Treasury Obligations (Bills, notes and bonds)

U.S. Government Agency and Instrumentality Securities

Repurchase Agreements (Repos)

Certificates of Deposit (CDs) Commercial Banks (FDIC Insured)

Certificates of Deposit (CDs) Savings and Loan Associations (FDIC Insured)

Maryland Local Government Investment Pool

Money Market or other Investment Deposit Accounts with local banks or Savings and Loans (Federally Insured)

Money Market Accounts with institutions described in Section 9.A.5.

B. Investment Restrictions:

Restrictions placed on the Village's investments:

1. Except for obligations of the United States of America, its agencies or instrumentalities, which are held directly in the Village's name and not in "street name" for the Village's account, where no restriction as to amount exists, the amount of Village funds in any one institution shall not exceed the lesser of (a) one million dollars, or (b) one half of the total Village funds as defined in Section 2 above, except that up to one million, five hundred thousand dollars may be held in the Maryland Local Government Investment Pool.
2. Since liquidity is an important consideration in the investment program, non-marketable securities shall not be purchased.

12. ~~12.~~ BORROWING:

The Village may not borrow any funds for the sole purpose of investment.

13. CLASSIFICATION OF FUNDS:

At least annually, the Investment Committee shall review the Village financial position, together with its approved operating budget, planned expenditure of reserves, and longer term capital spending needs in order to identify that portion of its Current Assets which should be held as (1) a reserve for current operations, (2) a reserve for planned capital projects, and (3) a general contingency reserve.

In setting aside funds as a reserve for current operations, the Committee shall focus on anticipated cash flow needs during the coming one to two years taking into consideration the timing of large routine expenditures as well as the timing and likely variability of the several major income and expenditure categories.

In setting aside funds as a reserve for capital projects, the Committee shall identify the likely timing of major future capital expenditures that are anticipated but have not yet been specifically budgeted. This reserve shall include the proceeds of any assessments or borrowing which may be undertaken to finance a capital project pending their application to meet that project's costs.

The Village as a matter of policy seeks to maintain a general contingency reserve that shall be equal to at least one-third of its annual operating budget. Funds that are not otherwise identified as reserved for current operations or for future capital projects will be assigned to this reserve.

143. MATURITY SCHEDULING:

Investment maturities shall be scheduled to coincide with projected cash flow needs, taking into account interest rate and liquidity considerations.

Maturities for investment of the reserve for current operations should normally not be for more than one year and never more than two years. Longer maturities may be appropriate for the investment of the reserve for capital projects, depending on the anticipated timing of those outlays and the exposure to interest rate risk as well as current interest yield. Investment of the general contingency reserve may also be in instruments with longer maturities but must recognize the possibility that all or much of that reserve might need to be accessed on short notice. This reserve may be invested in a manner which recognizes opportunities for increased yields consequent to longer maturities so long as (1) there is an assured, active market for these investments in the event their liquidation prior to maturity should be required and (2) penalties for early liquidation, including possible loss of principal, are defined or can be reasonably estimated.

154. INVESTMENT PROCEDURE:

The Treasurer will determine the amount to be invested after evaluating cash flow needs. Normally, a competitive "bid" process shall be conducted. Except for investments in the Local Government Investment Pool, U.S. government securities or transfers to Village saving deposit accounts, a minimum of three telephone, electronic or written "bids" will be solicited. The investment usually will be awarded to the highest bidder. However, the investment may be awarded to a lower bidder in order to comply with the diversification criteria relating to investment instruments or institutions.

Funds will be transferred between appropriate institutions by the Treasurer in accordance with existing wire or electronic funds transfer agreements between the Village and the originating financial institution involved.

Transaction forms will be prepared for all investments and transfers of funds. This document will show the amount invested and/or transferred; type of security; from whom the security was purchased; interest rate; maturity date; days to maturity; Village account debited or credited; quoted bids and a brief explanation if an investment was made with less than three "bids" or to meet the diversification criteria. Transaction forms shall be numbered consecutively. The number will be obtained from a Transaction Form Control Log in the Village Office.

All investment transactions are to be recorded on an Investment Control Record kept in the Village Office. This record will show the amount invested; type of funds invested (operating, bond issues, etc.); Transaction Form number; interest rate; maturity date; from whom purchased and purchase date. After recording necessary data on the Investment Control Log, the Transaction Forms will be forwarded to the Village Bookkeeper for posting to the accounting ledgers.

165. CONFIRMATIONS:

Confirmations are required for all investments. Confirmations received will be held in a file until the maturity date. At least weekly, the Bookkeeper will check the file folder against the Investment Control Log. If any confirmations have not been received, the financial institution or government security dealer involved must be notified. Confirmations are checked against the Investment Control Log to verify the amount, settlement date, maturity date and interest rate. All discrepancies must be resolved with the dealer/banker as soon as possible.

176. SAFEKEEPING:

All security transactions, including collateral for repurchase agreements, entered into by the Village, shall be conducted by a delivery-vs.-payment (DVP) basis. Securities will be held by a third party custodian designated by the Village and evidenced by safekeeping receipts. Non-negotiable securities (CD's) and other securities in amounts less than ~~\$1~~one million dollars (odd lots) purchased from Maryland banks may be safe-kept at those institutions, since the costs of delivery may prohibit delivery of this size of security. Securities in repurchase transactions may be safe-kept at institutions designated by the dealer, provided that the

securities are held in a separate account or sub-account that clearly identifies the securities (collateral) as belonging to Chevy Chase Village. The institution shall issue a safekeeping receipt to the Village listing the specific instrument, rate, maturity and other pertinent information.

187. INSURANCE OR COLLATERAL:

All deposits, certificates of deposit, and repurchase agreements shall be secured by pledged collateral with a market value equal to no less than 102% of the market value of principal and accrued interest, less an amount insured by the FDIC. Collateral will always be held by an independent third party with whom the Village has a current custodial agreement. Evidence of the pledged collateral shall be documented by a safekeeping agreement or a master repurchase agreement with the collateral pledged clearly listed in the agreement and a copy of such documentation shall be supplied to and retained by the Village. Collateral shall be reviewed monthly to assure that the market value of the securities pledged equals or exceeds 102% of the related deposit or investment balance.

198. COLLATERAL DEFINED:

The Village shall accept only the following securities as collateral for cash deposits, certificates of deposit, and repurchase agreements:

- A. FDIC insurance coverage.
- B. Obligations of the United States of America, its agencies and instrumentalities, including agency and instrumentality issued mortgage-backed collateral.
- C. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Maryland or the United States of America or its agencies and instrumentalities.
- D. Obligations of states, agencies thereof, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of no less than A or its equivalent with remaining maturity of ten (10) years or less.

E. Other securities as approved by the Board of Managers.

~~2019.~~ SUBJECT TO AUDIT:

All collateral shall be subject to inspection and audit by the Treasurer and/or the Village's independent auditors.

~~210.~~ INVESTMENT COMMITTEE:

The Chairperson. of the Board of Managers will appoint an Investment Review Committee for the purpose of overseeing the implementation of the Villager's investment program and assuring it is consistent with the investment policy as approved by the Board. The committee shall consist of the Village Manager, the Treasurer, the Budget Committee Chairman, and the Audit Committee Chairman. Village Counsel may be asked to participate to provide legal advice.

The Investment Review Committee shall meet at least two times per year to determine general strategies and to monitor results. The committee shall include in its deliberations such topics as economic outlook, portfolio diversification and maturity structure, potential risks to the Village's funds, approval of authorized financial institutions, and the target rate of return on the investment portfolio.

~~221.~~ REPORTING REQUIREMENTS:

Within 60 days of the end of the fiscal year the independent auditor shall prepare an annual report on the investment program and investment activity. This report shall be presented to the Investment Review Committee. The annual report shall include twelve-month comparisons of return, shall suggest policies and improvements that may enhance the investment program, and include an investment plan for the ensuing fiscal year. The investment annual report shall be presented to the Board of Managers in conjunction with the annual audit report.

~~232.~~ EXCLUSIONS:

Excluded from this policy are funds that due to the funding sources, have special restrictions on the use and investment of the funds.

~~243.~~ ETHICS AND CONFLICTS OF INTEREST:

Officials and employees involved in the investment process shall refrain from personal business activities that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Village's Ethics Commission any material financial interest in financial institutions that conduct business within the Village and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Village, particularly with regard to the time of purchases and sales. In addition, all officials and employees who invest Village funds shall be subject to the conflicts of interest section of the Village Ethics Ordinance.

The foregoing ~~amended~~ Investment Policy and Procedures was Approved and Adopted by the Chevy Chase Village Board of Managers this __ day of _____, 200~~8~~³.

Susie Eig, Secretary
Chairman

~~Richard S. Redin~~Douglas Kamerow,

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FINAL: as of ~~April 7, 2003~~September 8, 2008

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